

**SOUTH CAROLINA
PUBLIC SERVICE COMMISSION
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2002

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	5
PAYROLL	6
RECONCILIATIONS	6
OPERATING LEASES CLOSING PACKAGE	7
SECTION B - STATUS OF PRIOR FINDINGS	9
MANAGEMENT'S RESPONSE	10

State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 29, 2003

The Honorable Mark Sanford, Governor
and
Public Service Commissioners
South Carolina Public Service Commission
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of South Carolina Public Service Commission (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2002, in the areas addressed. The Commission's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Reconciliations in the Accountant's Comments section of this report.

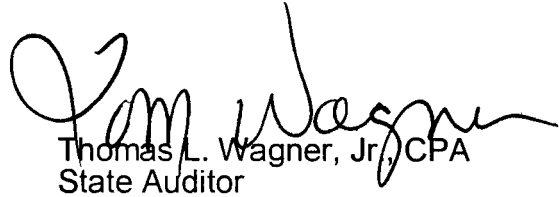
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Commission, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Reconciliations in the Accountant's Comments section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Payroll in the Accountant's Comments section of this report.
4. We tested randomly selected recorded journal entries to determine if the transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. We found no exceptions as a result of the procedures.

5. We tested selected entries and monthly totals in the subsidiary records of the Commission to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2002, and tested selected reconciliations of balances in the Commission's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Commission's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Commission's accounting records and/or in STARS. The reconciliations selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Reconciliations in the Accountant's Comments section of this report.
7. We tested the Commission's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2002. Our findings as a result of these procedures are presented in Payroll, Reconciliations and Operating Leases Closing Package in the Accountant's Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission resulting from our engagement for the fiscal year ended June 30, 2000, to determine if adequate corrective action has been taken. (We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2001.) Our findings as a result of these procedures are presented in Payroll, Reconciliations and Operating Leases Closing Package in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2002, prepared by the Commission and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Operating Leases Closing Package in the Accountant's Comments section of this report.

The Honorable Mark Sanford, Governor
and
Public Service Commissioners
South Carolina Public Service Commission
August 29, 2003

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the Commissioners and management of the South Carolina Public Service Commission and is not intended to be and should not be used by anyone other than these specified parties.



Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

PAYROLL

We tested all six employees who were hired by the Commission during fiscal year 2002. We found that one employee was overpaid \$282. The Commission calculated the employee's first pay using the incorrect number of days worked which resulted in the overpayment. A similar finding was noted in the prior State Auditor's report.

An effective accounting system includes adequate documentation and control procedures (e.g., independent reviews of pay computation and independent verification of hire dates, termination dates, annual leave balances, pay rate, etc.) to help ensure that errors will be detected and corrected in a timely manner and that payroll checks will be processed for the proper amounts. Section 8-11-30 of the South Carolina Code of Laws states "It is unlawful for a person (1) to receive a salary from the State or any of its departments which is not due, or (2) employed by the State to issue vouchers, checks or otherwise pay salaries or monies that are not due to State employees. . ."

We recommend the Commission implement procedures to ensure that first pay calculations are independently checked for mathematical accuracy and all information used in those computations is independently verified with source records. We further recommend that the Commission recover the over payment from the employee.

RECONCILIATIONS

We obtained all fiscal year 2002 Commission-prepared monthly reconciliations and compared balances in the Commission's accounting system (BARS) to those in the Statewide Accounting and Reporting System (STARS) and noted a few minor differences in revenues, expenditures and ending cash balances. We found that the Commission identified these differences as reconciling items each month but failed to make necessary adjusting journal entries to correct the differences. Further, we found that the Agency's monthly reconciliations

were not signed and dated by the preparer nor were they independently reviewed and approved. [Similar comments were included in our reports for fiscal years 1994 through 2000 except for fiscal years 1999 and 2001 for which we applied no procedures to the Commission's accounting records and internal controls.]

Section 2.1.7.20 of the STARS Manual requires monthly reconciliations to be (1) performed at the appropriate level of detail, (2) timely prepared, (3) adequately documented, (4) signed and dated by the preparer and (5) independently reviewed and approved in writing. All reconciling items should be identified and explained, and errors detected through the reconciliation process should be promptly corrected in the Commission's accounting records and/or in STARS, as appropriate.

We continue to recommend that the Commission implement procedures to ensure that monthly reconciliations are performed in accordance with the STARS Manual requirements.

OPERATING LEASES CLOSING PACKAGE

The State Comptroller General's Office requires agencies to submit closing packages at the end of the fiscal year in order to convert information in the State's accounting system (STARS) from the cash basis of accounting to the modified accrual or accrual basis of accounting, as appropriate, in conformity with generally accepted accounting principles (GAAP). Section 1.8 of the GAAP Closing Procedure Manual (GAAP Manual) states that each agency is responsible for submitting accurate and complete closing package forms that are completed in accordance with instructions. Section 3.19 of the GAAP Manual states, "Some lease agreements may specify executory costs as a part of the minimum payment the lessee must make to the lessor. Executory costs that are part of the minimum lease payment are reported in Part V of the Operating Leases Summary Form."

The lease agreement for the Commission's office space specified amounts for executory costs. On the closing package, the Commission failed to include executory costs of \$203,842 in the future minimum lease payments. We also noted that the Agency failed to properly complete the lease register for the office space lease. Amounts for total lease payment, minimum lease payment per period, and executory cost per period were omitted. A similar finding was noted in the prior State Auditor's report.

We recommend that the Commission assign responsibility for preparation and review of each closing package to an employee and a supervisor who are thoroughly familiar with GAAP and with the GAAP Manual instructions. Both the preparer and reviewer of the lease closing package should review the Commission's lease agreements and Lease Register to ensure that all relevant lease terms and amounts needed for proper reporting are disclosed. Finally, we recommend that, in addition to verifying closing package information with supporting documentation and the accounting records, the reviewer of each closing package should verify amounts and totals reported thereon.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the South Carolina Public Service Commission for the fiscal year ended June 30, 2000, and dated March 9, 2001. (We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2001.) We determined that the Commission has not taken adequate corrective action on each of the deficiencies. Therefore, we have reported similar findings in Section A of the Accountant's Comments section of this report.

MANAGEMENT'S RESPONSE



Bruce F. Duke
Deputy Executive Director

The Public Service Commission State of South Carolina

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October 14, 2003

Mr. Thomas L. Wagner, Jr., CPA
State of South Carolina
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Wagner:

The Agency has reviewed the preliminary draft copy of the report resulting from your performance of agreed-upon procedures to the accounting records of the Public Service Commission of South Carolina for the fiscal year ended June 30, 2002. We are now authorizing the release of the report and its findings.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Duke", written over a horizontal line.

Bruce F. Duke
Acting Executive Director

BFD:de

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